

# Exploring the 1MDB Business Scandal

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## Abstract

The 1Malaysia Development Berhad (1MDB) scandal is seen as one of the most important and complex cases of financial mismanagement, as well as corruption, in history. 1MDB was established in 2009 by the government of Malaysia and was seen as a passion project to ultimately promote economic development by investing in various sectors including real estate, energy, and more. However, soon, it was found entangled in serious allegations of fraud, embezzlement, and money laundering. This research paper hopes to explore the intricate connections of wrongful financial decisions that created the 1MDB scandal by analyzing the key causes, actors, and the impact it had on the economy. This paper not only strives to provide a concise understanding of how the scandal unfolded, but also acknowledges the vulnerabilities in certain systems such as governance, financial decisions, and accountability which all authorized this high-profile embezzlement to take place. By doing so, this research encourages the urgent demand for regulatory frameworks. Transparency with employers and their companies, as well as enhanced international cooperation to avert similar occurrences from happening in the future. Furthermore, this paper seeks to contribute to the ongoing controversy of strengthening financial integrity and preventing corruption in sovereign wealth funds as well as public institutions. In all, the goal is to foster a more transparent and accountable environment that safeguards public resources from mismanagement to promote sustainability and development within a community.

## Keywords

1MDB, Financial Fraud, Jho Low, Najib Razak, Global Corruption, Sovereign Wealth Funds, Anti-Money Laundering, Goldman Sachs, Regulatory Reform, Financial Governance, Malaysia, Cross-Border Finance, Blockchain Auditing, Transparency, Public Accountability

## 1. Introduction

The 1Malaysia Development Berhad (1MDB) scandal is viewed as a prominent

example of financial misconduct in recent global history due to its involvement with fraud, political corruption, and money laundering on a global scale. This project began in 2009 with the mission to promote a better economy for Malaysia by using strategic investments and was meant to alleviate poverty. However, a financial fiasco occurred as billions of dollars were siphoned off from 1MDB through discrete transactions and illegal investments. While this scandal originated from Malaysia, it slowly reverberated across international borders, implicating political figures and corporations in many countries. The 1MDB uncovered critical vulnerabilities in the financial systems of numerous countries, which raised serious debates regarding the governance of citizens and corporations. This scandal led to uncovering corruption within the government.

According to the U.S. Department of Justice (DOJ), an estimated \$4.5 billion was embezzled from 1MDB between 2009 and 2015. The funds were stolen through a series of shell companies and international banks which made it difficult to identify the wrongdoers. The scandal had serious implications not only for Malaysia but also for the financial system around the globe. In a civil lawsuit, the DOJ claimed that over \$1 billion of misused funds were flowing through the financial institutions in the U.S., which included a key player: Goldman Sachs. In 2015, the DOJ's investigation revealed that \$1.6 billion was laundered through this event and that the transactions involved firms based in Singapore as well as Swiss banks being heavily involved for the incentive of extra money. A shocking revelation was the diversion of funds into luxury real estate properties in the United States, such as in Los Angeles and New York City. In addition, high-profile art was also purchased, such as a \$35 million painting by Picasso. Not only did these funds find their way into real estate, but they also landed a significant role in the production of Hollywood films such as *The Wolf of Wall Street*, in which Malaysian financier Jho Low played a crucial role in delivering the funds. As part of the Kleptocracy Asset Recovery Initiative, U.S. authorities regained \$1.7 billion worth of assets in the year 2021.

- Luxury Assets: over \$1 billion was diverted into real estate and art such as Picasso Paintings and properties in New York City.
- Initial Bond Issuances: Goldman Sachs had helped arrange over \$6.5 billion in bond deals through offshore accounts.
- Hollywood Financing: Jho Low had provided investment to film *The Wolf of Wall Street*.

At the heart of the scandal was the involvement of Malaysian financier Jho Low, who had become an architect of the scheme. He used to have connections within the Malaysian government to embezzle funds. His associates claim that he had the ability to move large sums of money, which went unnoticed, leading to illicit transactions going undetected. A former employee of an affected institution stated that "the systems that were supposed to prevent money laundering have essentially been ignored" ([The New York Times, 2016](#)). Eventually, by 2016, the fraud had become quite clear, which led multiple countries to launch investigations and press charges against figures, including Prime Minister Najib Razak.

In 2015, British Journalist Clare Rewcastle Brown helped expose the 1MDB scandal by leaking confidential documents to the media. Her report was crucial to revealing the severity of the 1MDB scandal, particularly the key figures such as former Prime Minister Najib Razak and Jho Low. According to an article published by *The Guardian* (2018), the documents were a vast array of emails, financial statements, and contracts detailing how \$3.5 billion in 1MDB funds were misused through the help of fraudulent investment and shell companies. Not only was the leak able to reveal the theft, but it also showcased how prestigious international financial institutions, including Deutsche Bank and Goldman Sachs, were heavily involved in facilitating the movement of illegal funds across the border. In addition, journalist Tom Wright from *The Wall Street Journal* created a report in 2015 highlighting the involvement of Goldman Sachs. He and his colleagues made the claim that a series of complex bond deals had raised billions of dollars illegally for 1MDB. He asserted that \$6.5 billion was raised through the bond scheme and that at least \$1 billion was driven into accounts controlled by Jho Low.

This scandal helped uncover the hard truth: many inadequacies lay within global financial institutions in blocking cross-border corruption. U.S. Attorney General Loretta Lynch referred to the 1MDB case as “one of the largest thefts in history” and promoted the need for better international involvement to fight financial crimes (U.S. Department of Justice, 2016). Moreover, Malaysia’s political institutions were just as guilty due to their failure to detect and stop the malfeasance. According to *The Malaysian Insider* (The Malaysian Insider, 2015), Bank Negara Malaysia had consistently raised concerns regarding the practices of 1MDB; however, these questions were ignored by the Najib administration. Due to the lack of transparency, 1MDB had fallen, and the public trust in the Malaysian government had seen a decline as well. Mass protests and calls for accountability had begun to take place. According to *The Guardian*, this ultimately “was a decisive factor in Najib’s ousting from power,” and soon led to the installation of Mahathir Mohamad, a reformist government. The ultimatum was decided in 2020 when Najib Razak was convicted of corruption and sentenced to 12 years in prison along with a large fine.

## 2. Global Involvement and Financial Institutions

As this paper initially discussed, the 1MDB scandal began in the center of Malaysia and slowly began in the United States as well. The prime actors were Najib Razak and Jho Low. However, this event spread to other countries, including Switzerland, Singapore, the United Arab Emirates, and others.

### 2.1. Switzerland

Switzerland is often seen as the symbol of reliability and holds high ethical standards in the banking industry. However, BSI AG found itself embroiled in the scandal due to its high involvement. Banks such as BSI and Falcon Bank specifically played crucial roles in doing so by facilitating transactions worth billions without

holding the needed procedures for politically exposed persons (PEPs). The fallout was swift as very quickly. Licenses were revoked, fines were imposed, and their financial reputation significantly decreased. The country began focusing on reforms to build confidence within its financial institutions and also prevent this from happening in the future.

## **2.2. Singapore**

Singapore is widely known as a financial hub, meaning that many transactions are able to pass through because of its high standards and connections within the industry. This, naturally, allowed the 1MDB to conduct its illegal activities. Knowing the crimes insiders had committed, the city-state's regulatory authorities launched a very aggressive enforcement campaign. In 2015-2017, their regulators placed hefty fines on eight banks for a grand total of \$29 million due to their failures to notice the 1MDB transactions. While BSI and Falcon Bank were able to reach closure, DBS and Standard Chartered were not, and they were recognized as complicit in the crime. While monetary penalties were enforced, Singapore's main goal was to send a transparent message about its stance on financial misconduct. This allowed the world to view them as a regional leader throughout the event as they handled the situation with great seriousness.

## **2.3. United Arab Emirates**

The Middle East was also a big component of this scandal. Respected entities such as the International Petroleum Investment Company (IPIC) and Aabar Investments are great examples of this. Using agreements that were forged for the government and public eye, they were able to divert billions of dollars while disguised as legitimate investments. Their entanglement with Malaysia showcases how sovereign wealth funds can be manipulated in a strategic yet harmful way. Specifically, around \$1.36 billion in 1MDB funds were linked to the UAE.

## **2.4. Other Jurisdictions**

The global footprint of the 1MDB scandal reached the pristine beaches of the Virgin Islands to the busy financial institutions in Hong Kong SAR (China). Many jurisdictions worldwide offered highly demanded incentives for Najib and his regime, such as low regulatory scrutiny, advanced financial infrastructure, and anonymity. An estimated \$3 billion was able to pass through these offshore financial hubs.

# **3. Impact on Global Finance Policy**

## **3.1. Repercussions for Financial Institutions**

The 1MDB scandal resulted in many serious consequences for the financial institutions involved. Specifically, banks had to face hefty fines, legal actions, and damage to their reputations. The event also led to widespread reforms in AMI and

compliance practices involving PEPs.

### **3.2. Strengthening Regulatory Frameworks**

The scandal brought light to this issue of a stronger global regulatory framework to prevent these financial crimes. This created the high investigations and policies of cross-border transactions and better international collaboration with countries.

### **3.3. Lessons for Sovereign Wealth Funds**

Not only did the 1MDB create policies, but it also highlighted sovereign wealth funds' vulnerabilities to corruption. It served to involve the government and have them implement measures to hold state-owned entities accountable.

## **4. International Repercussions and Investigations**

As this paper discussed, Switzerland, Singapore, and the United States were the main countries involved. However, it's important to delve into the actions taken after the scandal and how every independent union handled it. Specifically, the global investigation led to the tightening of anti-money laundering (AML) and anti-corruption regulations, reformulation of financial practices, and strengthening of cross-border cooperation regarding financial use. This next section will highlight the legal actions taken and the laws made in response to the embezzlement.

### **4.1. United States: Strengthening Anti-Kleptocracy Laws and Financial Regulations**

The U.S. Department of Justice was quick to act on the scandal and launched an investigation almost immediately to understand the misappropriation of the money. The consequences were aimed at controlling the money laundered and corrupt practices held beneath the government's eyesight.

### **4.2. Kleptocracy Asset Recovery Initiative**

The Kleptocracy Asset Recovery Initiative (KARI) was built to fight global corruption and any kleptocracy. The 1MDB has been its most prominent case, as it was able to file a civil forfeiture complaint. Here, a grand total of \$1 billion was recovered from the event due to the assets purchased with unowned money. This program allowed the authorities of the United States to take control of assets related to the scandal, such as luxury goods, properties, and art, from those linked to the embezzlement. Furthermore, the U.S Foreign Corrupt Practices Act (FCPA), which prohibits the bribery of officials by companies and people of the United States, came under serious questioning due to the scandal. It was particularly interested in Goldman Sachs, a bank issuing bonds for the scandal. This led to them agreeing to a \$2.9 billion settlement to resolve the burdening charges, one of the largest fines placed on a financial institution.

### **4.3. Foreign Investment Regulations**

The U.S. reviewed foreign investment regulations to oversee transactions in an orderly manner to prevent corruption. The Committee on Foreign Investment in the United States (CFIUS), which is known to review foreign investments for security risks to the nation, had become involved in the network that allowed illegal money to flow through the United States banks. Moreover, the United States was eager to implement better transparency in sovereign wealth funds (SWFs) like 1MDB. The U.S Treasury and the Financial Crimes Enforcement Network (FinCEN) also ordered reporting requirements for any SWFs to stop them from being taken advantage of in the form of vehicles for corruption.

### **4.4. Switzerland: Strengthening Anti-Money Laundering (AML) Laws**

Swiss banks had taken actions to tighten their anti-money laundering (AML) laws to provide their citizens with better financial transparency.

### **4.5. Revision of the Swiss Banking Secrecy Law**

Prior to the 1MDB scandal taking place, Switzerland was seen for its banking secrecy laws, meaning it made it a haven for illegal financial transactions. However, once the scandal occurred, the country changed these laws. The goal was to introduce better transparency in the financial sector. Throughout 2018, changes in the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) became apparent, where financial institutions had to place stronger measures and rather frequent checks on the funds flowing through Switzerland. In addition, they also introduced the Automatic Exchange of Information (AEI) under the Common Reporting Standard (CRS), which allowed the automatic sharing of tax information between countries. It hoped to prevent illegal monetary activity by showcasing more transparency in cross-border flows.

### **4.6. Enhanced AML and Know-Your-Customer (KYC) Regulations**

The country also updated its anti-money laundering (AML) and Know-Your-Customer (KYC) requirements. Banks had to prevent these procedures from analyzing the origin of their clients' funds closely. Any suspicious activity was to be reported to the Swiss Financial Market Supervisory Authority (FINMA). Due to these new rules, banks still have to conduct background checks on the Ultimate Beneficial Owners (UBOs) of accounts. This is highly seen when large sums are flowing from high-risk jurisdictions. Following 2020, Switzerland placed criminal charges on banks, including BSI Bank, and prosecutors froze \$1.2 billion worth of assets involved in the scandal. This showcased their commitment to having financial institutions accountable for their actions.

### **4.7. Singapore: Strengthening Financial Transparency and Regulatory Enforcement**

In 2016, Singapore's Monetary Authority of Singapore (MAS) fined Swiss Private

Bank BSI and Falcon Bank. These fines were part of Singapore's efforts to make AML laws more widely understood and accepted. While these penalties caused great losses, MAS also introduced KYC compliance systems. This led to banks being required to implement enhanced due diligence (EDD).

#### **4.8. Public Registers and Beneficial Ownership Transparency**

Singapore continued to showcase its goal of strengthening financial transparency by creating the Beneficial Ownership Registry. This required companies to reveal the individuals who owned them and eliminate the use of shell companies due to their involvement in financial misconduct. This was because companies had to mask the flow of funds being stolen. Moreover, the country signed the Multilateral Competent Authority Agreement (MCAA) for the Automatic Exchange of Financial Account Information to improve the information being shared between jurisdictions to better track transactions.

#### **4.9. Other Countries or Regions: Global Financial Governance**

In addition to the countries or region listed above, Luxemburg, Hong Kong SAR (China), and the United Kingdom took measures to improve their AML regulations to prevent any scandal in their respective areas.

#### **4.10. United Kingdom**

The UK's Serious Fraud Office (SFO) had begun investigating the involvement of any British-owned banks in facilitating 1MDB transactions. The government pushed this with the Fifth Anti-Money Laundering Directive (5AMLD), which was implemented to have stricter regulations on suspicious transactions.

#### **4.11. Hong Kong SAR (China)**

Hong Kong SAR (China) strengthened its anti-money laundering laws by placing the Financial Action Task Force (FATF) within its community to adopt its recommendations on the regulation of banks. Soon, the Securities and Futures Commission (SFC) updated the guidelines to block international money schemes from happening.

### **5. My Recommendations to Prevent Large Scale Fraud**

This paper highlights how the 1MDB scandal reminded the globe of the vulnerabilities in the financial systems surrounding citizens. I believe actionable reforms are needed to prevent such fraud from occurring in the future. This section will analyze and showcase key recommendations to prevent a repeat of this scandal.

Firstly, an alert notifying the government of any corruption, serving as a network and working globally. It would decentralize technology like blockchain that could monitor financial transactions regularly. This idea would help ordinary citizens who serve as data analysts, investigators, and more to collaborate and flag any activity that opposes the policies implemented. Those who notice such activity

can be provided an incentive such as recognition, ultimately creating a layer of accountability. This is noticed in platforms such as GitHub, where developers work together on codes. This ensures transparency and accuracy, which should be installed within our communities. Next, a global credit scoring system could be implemented. This would be used for sovereign wealth funds and would stop the misallocation of funds. This software is meant to rank SWFs based on their investment behavior. Governments would push their private-owned banks to maintain higher scores, and low scores could lead to international sanctions. The Global Impact Investing Network (GIIN) is seen implementing this strategy to track the social impacts of any investments made. A formal version of this idea can be implemented in sovereign wealth funds.

Lastly, developing a way to watermark funds in order to track the origin of funds can be beneficial. This technology would mimic markers in our DNA and would track the movement of money from its starting position to final destination. Illicit funds would be “marked” which would be traced and make it simpler to trace the involvement of individuals. This would increase transparency and also prevent users to stay hidden for long periods of time as seen in the 1MDB scandal. Furthermore, these innovative ideas can be implemented independent of already existing ideas. For instance, the 1MDB revealed that stronger international cooperation is needed amongst law enforcement agencies to block money from being embezzled. This should be installed with policies as seen in history with the Panama Papers where Panama’s Papers were leaked due to offshore companies leaking their network. The Common Reporting Standard (CRS) established a better regulated framework for the overseeing of exchange between countries. This idea is also implemented within the United States which I believe is important to acknowledge. Moreover, the lack of governance in these countries is what allowed the 1MDB to pass by. This meant that excessive risk, inadequate monitoring, and mismanagement were performed. This exact example was seen in The Volkswagen Emissions Scandal where the company’s top executives evaded regulations by placing software to cheat emissions tests. This was due to a failure in corporate governance. This can relate to the 1MDB where the government had become weak. However, I suggest policies be implemented to hold the government accountable for monitoring such activity from occurring.

## **6. Conclusion**

The 1MDB serves as a reminder of the flaws within policies and the government. While reforms are being implemented to address the issue, such as strengthening regulatory bodies, improving cross-border cooperation, and transparency, the root cause is seen as an issue in the system. To prevent these scandals from occurring in the future, it’s crucial to use modern technology, public participation, and collaboration using AI and humans. These concepts will lead to reshaping financial systems as they will be managed better. Ultimately, this paper is able to highlight the importance of continuous oversight of companies/banks, collective global

action, and integrity. The continued reform can help one hope for the prevention of similar events taking place in the world, which slowly restores faith in financial systems around the world.

### **Conflicts of Interest**

The authors declare no conflicts of interest regarding the publication of this paper.

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